COMMITTEE ON WAYS AND MEANS

Record Benefits and Record Unemployment

How the Largest Federal Unemployment Benefits Program in History Failed to Live Up to Supporters' Promises and Left Millions of Americans Asking "Where Are the Jobs?"

August 29, 2014

Introduction

This is the first Labor Day since 2007 when the federal government is not operating an extended unemployment benefit program for the long-term unemployed. On each of the last six Labor Days, the federal Emergency Unemployment Compensation (EUC) program offered additional weeks of unemployment benefits to people who had already collected typically 26 weeks of state unemployment checks. At its peak, unemployed individuals were able to collect up to 99 weeks of unemployment checks from EUC and related state and federal programs.

Never before have nearly two years' worth of unemployment benefit checks been paid per person in the U.S. That alone would make this recent experience a useful case study. But it is also important to assess claims such as those of House Democratic Leader Nancy Pelosi (D-CA) that extending federal unemployment benefits is "one of the best ways to grow the economy." As is reviewed in detail below, such claims have proven to be spectacularly wrong, as the country experienced the "worst jobs recovery ever" while EUC paid out record levels of benefits.

To improve understanding about EUC and its impact, this report reviews the EUC program from several perspectives, including:

1. How EUC compares with prior federal unemployment benefit programs;
2. How EUC affected employment while it operated;
3. How employment changed following EUC's expiration; and
4. Lessons for future policymakers based on the EUC experience.

1. How EUC Compares with Prior Federal Unemployment Benefit Programs

In the wake of recessions, the federal government typically creates a "temporary" federal unemployment benefits program for long-term unemployed workers who have exhausted up to 26 weeks of state UI benefits. The recession that started in December 2007 was no different. In June 2008, Congress created a "temporary" program called Emergency Unemployment Compensation or EUC, which began paying extended benefit checks in July 2008.

As chart 1 shows, similar temporary programs were created in the wake of recessions in 1982, 1991, and 2001. But that's pretty much where the similarities in these temporary programs end.

The EUC program paid out about nine times as many weeks of federal extended unemployment checks as the program that operated in the wake of the 2001 recession and terror attacks – a staggering 800 million EUC checks versus the 89 million checks paid under the 2002-04 program. EUC's $260 billion in spending also dwarfs any prior program, outspending all other recent programs by more than $200 billion, in inflation-adjusted dollars.

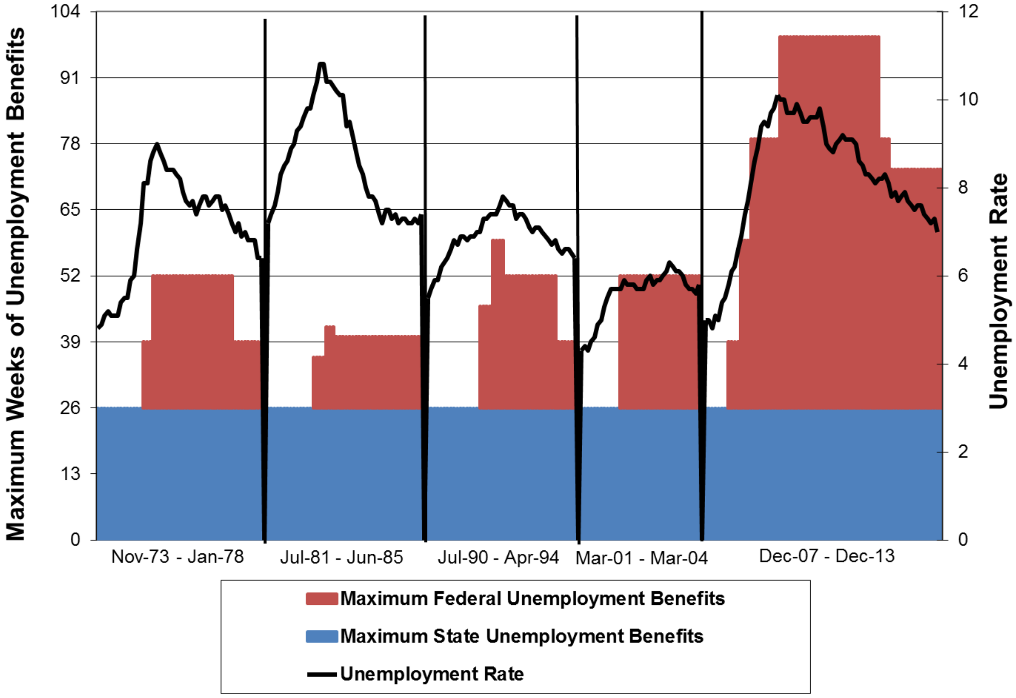
Chart 1. Recipients, Weeks Claimed, and Benefits Paid in Recent Federal Unemployment Benefit Programs

	FSB 1982-1985	EUC 1991-1994	TEUC 2002-2004	EUC* 2008-2013
Total Recipients	8 million	9 million	8 million	24 million
Average Weeks of Benefits Per Recipient	10	17	12	33
Total Weeks Claimed	76 million	151 million	89 million	800 million
Total Benefits Paid (2013$)	$22 billion	$46 billion	$28 billion	$260 billion

Totals may not add due to rounding.
* In addition to temporary programs like EUC, a permanent law program called Extended Benefits or EB provides up to an additional twenty weeks of extended unemployment benefits in states with "high and rising" unemployment rates. To expand the use of this program, which had always previously been funded jointly by states and the federal government, Democrats' 2009 stimulus law and subsequent legislation provided 100 percent federal funding for EB, along with loosening program eligibility terms. For purposes of this chart, Federal spending and other data on EB and EUC – both of which were entirely federally funded starting in early 2009 – are combined.
Sources: Department of Labor Emergency Unemployment Compensation 2008 (EUC08) and Federal-State Extended Benefit (EB) Summary data for State Programs and UI Outlook FY 2015 Budget Midsession Review.

At its peak in late 2009 through early 2012, the EUC program paid 53 weeks of federal benefits to millions of long-term unemployed workers. As displayed in chart 2, when combined with 20 weeks of federal EB benefits and typically 26 weeks of state benefits, this resulted in a record total of 99 weeks of all unemployment checks per worker – a level that had never been approached in U.S. history. Reforms enacted in February 2012 (in Public Law 112-96) began to reduce the maximum weeks of federal benefits, so that by the time the EUC program expired in December 2013 a maximum of 47 weeks of federal unemployment checks were payable (for a total of 73 weeks of all benefits).

Chart 2. Maximum Weeks of Benefits Payable under Recent Federal Unemployment Benefit Programs



Source: Congressional Research Service.

As also displayed in chart 2, compared to prior recessions the EUC program continued to operate for a record number of months after the unemployment rate peaked. In all, the EUC program paid benefits for a record 66 months, over two years longer than any prior "temporary" program.

In addition to being the most expensive, largest, and longest-running federal unemployment benefits program in history, EUC also added the most to the national debt. As displayed in chart 3, various EUC extensions added over $200 billion to the national debt.

Chart 3. EUC Extensions, Lengths, and Costs Added to the Debt

Date of Extension	Length of Extension	Costs Added to the Debt
1. June 2008	8 months	$13 billion
2. November 2008	4 months	$ 6 billion
3. February 2009	10 months	$ 39 billion
4. November 2009	1 month	-
5. December 2009	2 months	$ 11 billion

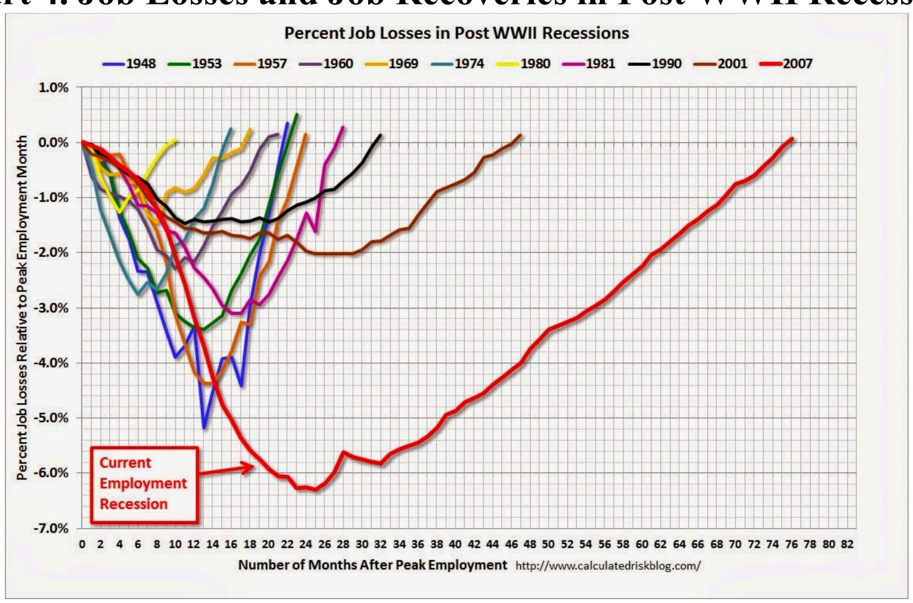
6. March 2010	2 months	$ 7 billion
7. April 2010	2 months	$ 13 billion
8. July 2010	5 months	$ 34 billion
9. December 2010	12 months	$ 57 billion
10. December 2011	2 months	-
11. February 2012	10 months	-
12. January 2013	12 months	$ 30 billion
Total	66 months	$210 billion

Source: Congressional Research Service.

2. How EUC Affected Employment while It Operated

In addition to the claims about EUC being a "vital stimulus" and "one of the best ways to grow the economy," the Obama Administration promised in 2009 that their trillion-dollar stimulus plan – which included a multi-pronged extension and expansion of unemployment benefits – would create 3.5 million jobs and reduce the U.S. unemployment rate to 5 percent by 2013. Instead, as is displayed in chart 4, the U.S. economy has experienced the worst jobs recovery ever. In fact, the "Obama recovery" is the only one in which all jobs lost during the recession had not been restored within three years (as was the case in all recessions between 1948 and 1990) or four years (in the case of the 2001 recession).

Chart 4. Job Losses and Job Recoveries in Post WWII Recessions

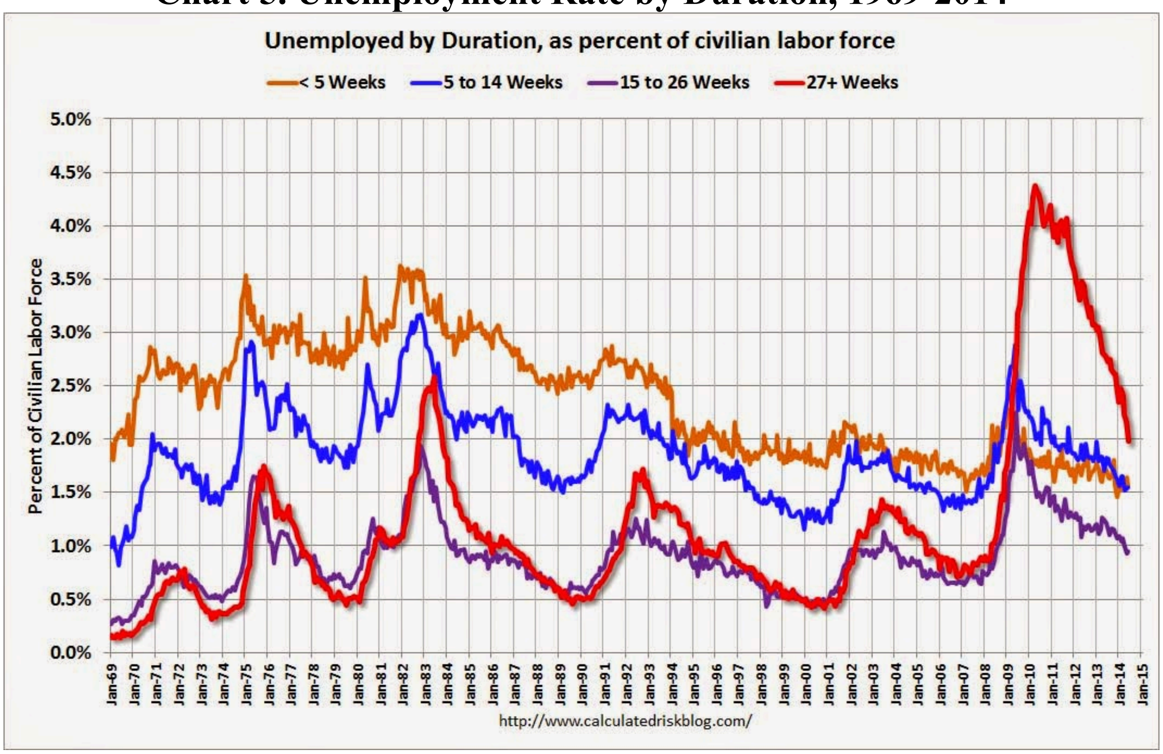


Source: Calculated Risk Blog, May Employment Report: 217,000 Jobs, 6.3% Unemployment Rate.

While there are numerous factors that impact the economy and job growth, new research points to EUC as a prime cause of the slow recovery in jobs. Specifically, scholars at the University of Pennsylvania have found that extended unemployment benefits had a "dramatic negative effect on employment" because "extensions of unemployment benefits lead to a decline in job creation by employers." This effect is so large that "our estimates imply that unemployment benefit extensions can account for most of the persistently high unemployment after the Great Recession." In short, lengthy extended unemployment benefits have hurt the unemployed by stifling new job creation, which is what the unemployed need most of all. It is hard to look at chart 4 – which shows the slowest job recovery in history while the U.S. operated the largest and most expensive extended benefits program ever – and disagree with this research. As displayed below, the acceleration of job creation after the end of the EUC program provides further support for this research.

As charts 5 and 6 depict, the very worst employment outcomes have been felt by the long-term unemployed—that is, those the EUC program was supposed to help the most.

Chart 5. Unemployment Rate by Duration, 1969-2014



Source: Calculated Risk Blog, Unemployment by Duration.

While short-term unemployment (that is, for 26 weeks or less) has seen increases in line with prior recessions dating back to the 1970s, since the start of the recession in late 2007, long-term unemployment has risen to nearly double its prior record; even with recent sharp declines, long-term unemployment continues to be severely elevated today. In fact, only after 2012 reforms reduced the maximum duration of EUC checks did long-term unemployment rates begin to sharply decline. As is shown in chart 6, while short-term unemployment has now returned to recent norms, long-term unemployment remains more than double its recent average. This is a lasting legacy of EUC and the slow "Obama recovery" that will take years to fully reverse.

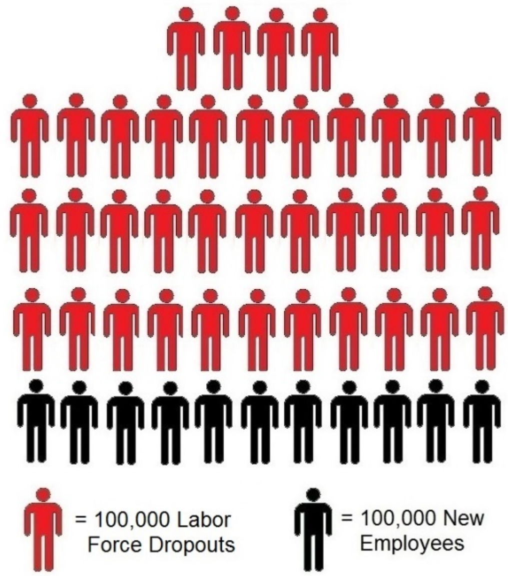
Chart 6. Unemployment Rate by Duration, 1994-2014

Note: Dotted lines represent average during the December 2001 to December 2007 expansion period as defined by the National Bureau of Economic Research. Shading denotes recession.
Source: Bureau of Labor Statistics, Current Population Survey; CEA calculations.

Source: Wall Street Journal, Five Questions through the Eyes of White House Economists (March 10, 2014)

The damage does not end with these official unemployment statistics. The White House has argued for continued extensions of EUC, suggesting that "One often overlooked benefit of extended unemployment compensation programs such as EUC and EB is that these programs tend to prevent the long-term unemployed from exiting the labor market." Yet the reality shows that while EUC operated millions of individuals gave up hope of finding a job, stopped looking for work, and dropped out of the workforce altogether. For example, throughout the Obama Administration, the number of adults ages 16-54 not in the labor force has grown by almost 3.1 million while total employment grew by about 900,000. As a result, as shown in chart 7, there have been more than three working-age dropouts from the labor force for every new employee, a dismal record. With the expiration of the EUC program in December 2013, this has begun to turn around. Since then, the 16-54 year old labor force has grown by over 400,000, as employment has also increased by over 900,000 for those in that age range.

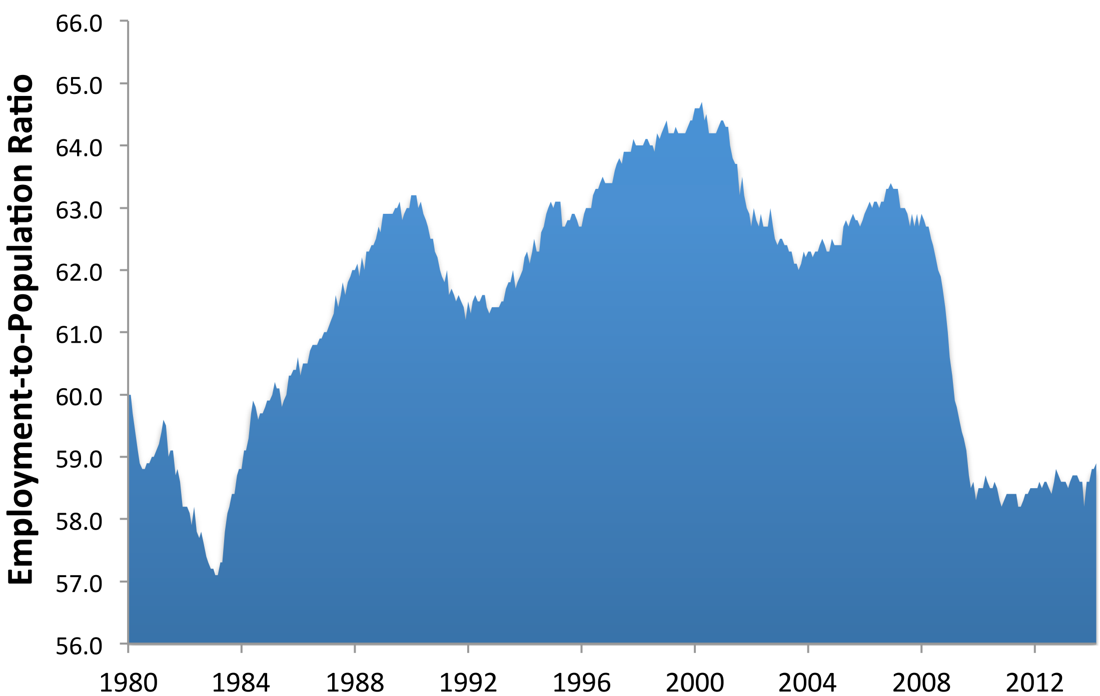
Chart 7. Labor Force Dropouts and New Employees, Ages 16-54
January 2008-June 2014



Source: U.S. Department of Labor, Bureau of Labor Statistics, also featured by Committee on Ways and Means, Reason #9: Far More Adults Have Left the Workforce Than Found New Jobs.

The combined effect of record and lingering long-term unemployment and large numbers of labor force dropouts has caused the U.S. employment-to-population ratio to drop back to levels last seen in 1984.

Chart 8. Employment-Population Ratio, 1980-2014



Source: Department of Labor, Bureau of Labor Statisitics.

3. How Employment Changed Following EUC's Expiration

Despite Democrat claims that spending on unemployment benefits "creates jobs faster than almost any initiative you can name," as detailed above, record-setting spending on extended unemployment benefits in recent years only resulted in the slowest jobs recovery on record. However, with the end of EUC program in December 2013, employment growth has accelerated while other key labor market stats have also improved. Specifically, as displayed in chart 9, comparing the seven months since EUC expired in December 2013 with the last seven months EUC operated, employment growth more than doubled, job growth accelerated, the labor force participation rate started rising after previously falling, and average and median durations of unemployment dropped rapidly after previously rising.

Chart 9. Comparing Key Labor Market Statistics Before and After EUC Ended

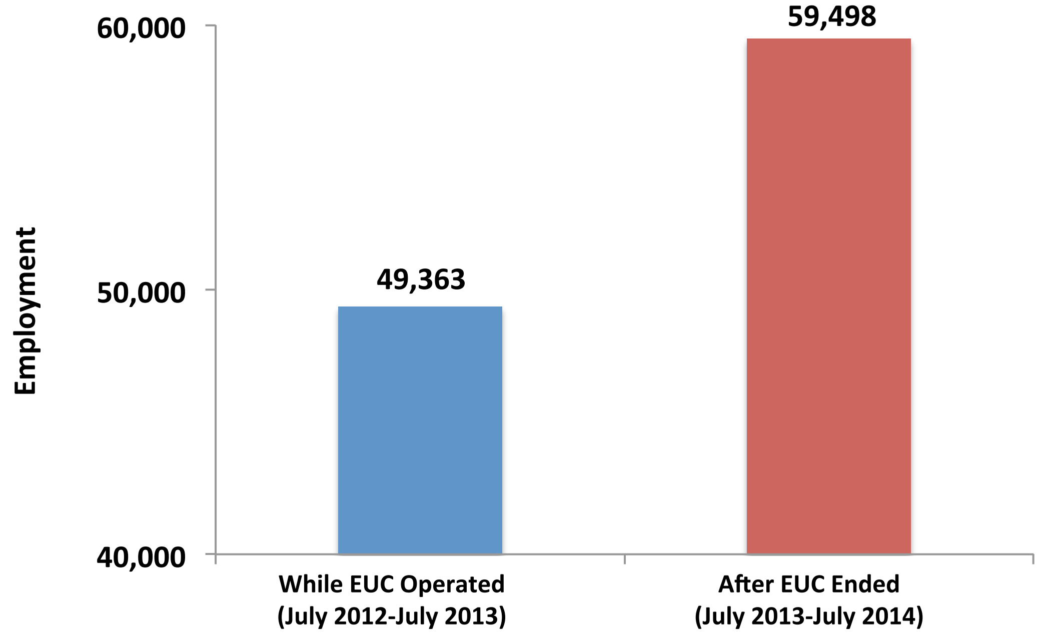
	Last Seven Months of EUC (May-December 2013)	**First Seven Months since EUC Ended (December 2013-July 2014)**
Employment	+667,000 (+95,000/month)	+1,766,000 (+252,000/month)
Jobs	+1,311,000 (+187,000/month)	+1,609,000 (+230,000/month)
Labor Force Participation Rate	63.4% to 62.8% = Down 0.6	62.8% to 62.9% = Up 0.1
Average Weeks of Unemployment	36.9 to 37.1 = Up 0.2 weeks	37.1 to 32.4 = Down 4.7 weeks
Median Weeks of Unemployment	16.9 to 17.1 = Up 0.2 weeks	17.1 to 13.3 = Down 3.8 weeks

Source: U.S. Department of Labor, Bureau of Labor Statistics. All data seasonally adjusted.

As this data shows, jobs grew faster in the wake of EUC's expiration -- expanding by nearly 300,000 more in the seven months after EUC ended compared with the last seven months it operated. While still preliminary, this early national data already contradicts Democrat claims that EUC is highly stimulative and that the "failure to extend the federal Emergency Unemployment Compensation program would cost the economy 200,000 jobs."

The experience of North Carolina, which ended EUC six months earlier than the rest of the nation in July 2013, further undermines the argument that lengthy extended benefit programs like EUC "create jobs." Since July 2013, North Carolina's unemployment rate has fallen by 1.6 percentage points (from 8.1% then to 6.5% in July 2014), as employment grew by over 59,000 in the last twelve months. As displayed in chart 10, this compares with a smaller drop in unemployment (of 1.3 percentage points) and rise in employment (of 49,000) in the last year EUC operated in North Carolina.

Chart 10. Change in Employment in North Carolina, Last 12 Months EUC Operated Versus First 12 Months after EUC Expired



Source: Bureau of Labor Statistics, Local Area Unemployment Statistics.

North Carolina is not alone in seeing improved employment outcomes since EUC ended. When EUC expired in December 2013, Illinois had approximately 74,000 former EUC recipients who were no longer eligible for benefits, the fifth largest such population in the country. But within just one month, 10,000 of them were working, which doubled to almost 20,000 in the third month and tripled to 30,000 working in the fifth month after EUC ended.

4. Lessons for Future Policymakers Based on the EUC Experience

As the data above shows, policymakers have a rich new bounty of information to guide them in crafting policy responses to future recessions. It is reasonable to expect that such future policy responses will continue to include some temporary extension of unemployment benefits for the long-term unemployed. Every recession since the late 1950s has seen such a response from Congress. History suggests a timely, targeted, and temporary extension of unemployment benefits can be an important stopgap for unemployed workers in the wake of a recession.

But what recent experience also shows is that the design of such programs must be approached with great caution. At the very least, this data shows that the EUC program, which operated longer, spent more, and paid out more weeks of benefit checks to more individuals than any prior program in U.S. history, coincided with the slowest jobs recovery in U.S. history. This alone is a challenge to EUC supporters, who argued since its beginning that EUC would create literally millions of jobs, including at least 200,000 if extended again throughout 2014. They were wrong. Not only did EUC not create the jobs its supporters promised, but job creation and employment accelerated markedly after the program ended.

Meanwhile, new research concludes EUC had a dramatic negative effect on job creation, which effect was so large that "estimates imply that unemployment benefit extensions can account for most of the persistently high unemployment after the Great Recession." Policymakers should heed such research and ensure that future extended benefit programs return to their timely, targeted, and temporary roots, instead of the long-running, large and liberal model practiced between 2008 and 2013. The fact that the long-term unemployed have suffered the worst labor market outcomes under the EUC program reinforces this point; those who truly wish to help the long-term unemployed in future recessions should be the most eager to avoid a repeat of the EUC experience.

But simply failing to do the wrong thing again is not enough. As the labor market continues to heal from the 2007-09 recession as well as the damage wrought by EUC, other steps can help. The U.S. House of Representatives has approved over 40 job creation bills, which are now stuck in the Senate pending action there. To bolster the case for Senate action, the Committee on Ways and Means is releasing 40 Reasons for 40 House-Passed Jobs Bills. If the Senate needs more reasons to act than that, they should consult with the millions of long-term unemployed individuals left behind by EUC and other failed Obama Administration economic policies.